

November 30, 1999

The Honorable Barbara Boxer
United States Senate
112 Hart Senate Office Building
Washington, DC 20510

Dear Senator Boxer:

This is in response to your letter of October 8, 1999, regarding the financing plan for the CALFED Bay-Delta Program.

As you know, implementation of a financing arrangement for the CALFED Bay-Delta Program will depend on action by Congress, the California Legislature, local government entities, and the voters of California. These actions will likely include appropriation of funds, creation of special funds, imposition of fees to support those funds, and approval of bond acts. None of the CALFED agencies may spend government revenues without explicit statutory authorization, and none may impose fees to support the CALFED Bay-Delta Program without explicit statutory authority. While these conditions may appear to be obvious, the consequence is that the CALFED agencies can only propose a financing plan; we cannot implement a financing plan without legislative action. Therefore, all discussions in CALFED reports about financing plans, financing principles, and financing strategies will be provisional - the actual financing plan will consist of the arrangements enacted by Congress and the California Legislature.

We released a draft financing plan in our June 1999 draft implementation plan. Although we have been working with consultants and agencies to develop a more detailed financing plan, we have not yet produced a document to address many open questions, including those that you have raised. We expect to finalize a more detailed plan by the time we file the NEPA record of decision for the CALFED Bay-Delta Program.

Regarding your specific questions, I offer the following responses. In each case, I have reiterated your question for context.

CALFED Agencies

California

The Resources Agency
Department of Fish and Game
Department of Water Resources
California Environmental Protection Agency
State Water Resources Control Board
Department of Food and Agriculture

Federal

Environmental Protection Agency
Department of the Interior
Fish and Wildlife Service
Bureau of Reclamation
U.S. Geological Survey
Bureau of Land Management
U.S. Army Corps of Engineers

Department of Agriculture
Natural Resources Conservation Service
U.S. Forest Service
Department of Commerce
National Marine Fisheries Service
Western Area Power Administration



Funding Sources

- 1) What are your basic financing needs and projections from state and federal sources, and how would passage of the proposed state water bond affect the CALFED Program?

Our current estimates of CALFED Bay-Delta Program costs are set forth in the Financing Plan, part of the June 1999 Implementation Plan. In brief, these estimates are \$732 million for FY 2000 and 2001 combined. For Stage 1 (2000-2007), current estimates are \$5.169 billion. We have not yet projected funding amounts from State or federal sources.

Ratification by the voters of the 2000 water bond act (AB 1584, Machado, 1999) would authorize State general obligation bond financing to help pay for several activities that are proposed for Stage 1 of the CALFED Bay-Delta Program (2000-2007), specifically:

- \$17 million for efforts to address agricultural drainage in the Delta.
- \$40 million for efforts to address low dissolved oxygen levels in the San Joaquin River.
- \$40 million for efforts to install permanent barriers at the head of Old River and other locations.
- \$17 million for efforts to address drainage from abandoned mines.
- \$30 million for Delta levee rehabilitation efforts.
- \$90 million for watershed protection projects (\$36 million would be available for projects outside southern California).
- \$100 million for non-point source pollution control projects (\$40 million would be available for projects outside southern California).
- \$40 million for water recycling projects.
- \$155 million for water conservation projects.

As you can see, this bond funding would not be sufficient to finance all the projected Program costs for 2000 and 2001, much less for all seven years of Stage 1.

Passage of a bond measure is a key step in securing some financing for the CALFED Bay-Delta Program, but voter ratification is not the last step, even with regard to this bond measure. Several additional conditions must be satisfied before these bond revenues would become available for expenditure on the CALFED Bay-Delta Program. For example, for projects directly related to the CALFED Bay-Delta Program, AB 1584 requires legislative appropriation of bond revenues to the Department of Water Resources and formal completion of the programmatic EIS/EIR. This latter requirement parallels a requirement in Prop. 204 for formal completion of the programmatic EIS/EIR before \$390 million in

ecosystem restoration funds authorized by that measure becomes available. Moreover, AB 1584 requires bond funds to be available in accordance with CALFED cost-sharing agreements.

- 2) In addition to state and federal funding sources, where will the money to pay for CALFED come from and how will it be allocated to the various CALFED programs? As you know, Proposition 204 held that, in exchange for advance funding, CALFED would develop "an equitable allocation of program costs among beneficiary groups" as part of an overall financing strategy.

We have not yet projected or estimated funding from non-federal and non-State sources. Further, we have not yet allocated any non-federal/non-State funding to any element of the CALFED Bay-Delta Program. As a matter of clarification, Prop. 204 includes a legislative finding that federal and State representatives have initiated a program to develop a comprehensive and long-term solution to the problems associated with the Bay-Delta, including an equitable allocation of program costs among beneficiary groups. We see no provision in Prop. 204 requiring CALFED to develop this equitable allocation in exchange for, or as a condition of, funding.

- 3) Most stakeholder efforts over the last three years have focused on securing state and federal funding for a host of projects and programs related, directly or not, to CALFED activities. And the current CALFED Implementation Plan states: "...after the benefits analysis and cost allocation, CALFED may propose cost shares that differ from existing state and federal cost sharing formulas, or may use the cost sharing formulas in existing programs." Do not such statements, coupled with an overt focus on taxpayer-subsidized funding sources, potentially undermine the entire Finance Plan effort?

Stakeholders have focused on helping to refine the CALFED Bay-Delta Program, including funding. CALFED Implementation Plan statements on the range of cost-sharing arrangements that might be considered do not undermine the finance plan effort. Instead, these statements provide the reader with a description of the range of options available.

"Beneficiary Pays" Issues:

- 1) The December 1998 and June 1999 Revised Phase II Reports both state: "A fundamental principle of the CALFED Program is that the costs of a program should be borne by those who benefit from the program." However, the June 1999 Implementation plan states: "A fundamental philosophy of the CALFED Program is that costs should, to the extent possible, be paid by the beneficiaries of Program actions." Does this change in language indicate a departure from CALFED's "beneficiary pays" approach?

The "beneficiary pays" approach is a general, overarching concept to serve as a foundation for a proposal for financing the CALFED Bay-Delta Program. We have not departed from that approach. Identifying benefits and quantifying benefits does not always follow a clear formula. As we have reviewed the CALFED program elements, it appears in some cases that cost allocation will be negotiated when clear quantification of the benefits is not feasible.

- 2) What steps has CALFED taken to identify those who would benefit from specific water management tools and to determine their willingness to pay?

The CALFED draft financing plan includes a preliminary identification of classes of beneficiaries for various program elements. We have not identified the beneficiaries for any given specific water management tool, nor have we attempted to determine willingness to pay. Distribution of benefits across groups in the society will depend on how water management tools are operated. For example, we have identified potential beneficiaries of water conservation measures as agricultural water users, municipal and industrial water users, users of Delta exports, and the public (from ecosystem restoration effects of water conservation). The proportion of benefits for each of these groups will vary on the precise set of measures adopted and implemented. Until these measures, and others, can be more thoroughly specified, beneficiaries will not have enough information to provide a meaningful indication of their "willingness to pay."

- 3) What steps has CALFED taken to establish what the plan refers to as a "Broad Based Bay Delta System Diversion Fee," who will pay it, and how will this fee support CALFED's flow-related ecosystem restoration objectives?

CALFED is still refining some elements of the CALFED Bay-Delta Program, including the financing arrangements for the program. Because these financing arrangements are still in development, we have not taken action to establish a broad-based diversion fee. We expect this matter to be the subject of consideration by the California Legislature and perhaps Congress.

- 4) Consistent with the "beneficiary pays" principle, what has CALFED done to refine and implement a comprehensive set of impact-based mitigation fees?

CALFED has not proposed a comprehensive set of impact-based mitigation fees.

Financial Plan:

- 1) As you know, the deadline for the final CALFED Program's Record of Decision (ROD) is just nine months away. I am concerned that, after four years of work, CALFED has thus far produced only an "initial framework" for developing a finance plan and has

indicated that such a plan might not be completed until the time of the ROD. When does CALFED intend to bring a Finance Plan to completion?

CALFED intends to have a financing plan completed by the filing of the Record of Decision under the National Environmental Protection Act.

Cost of Water Supplies:

- 1) The cost of new water supplies will be a critical factor in determining the ability of stakeholders to make use of newly developed water. According to your analysis, what is the range of estimated costs per acre foot of new water supplies generated under the following categories: conservation; reclamation; reoperation of existing reservoirs; groundwater storage developed through conjunctive use; off- and on-stream surface storage, including new reservoirs; as well as possible augmentation of existing dams? Clearly these costs vary within categories. Therefore, it would be useful for you to provide specific examples of costs within each category.

In October 1999, CALFED released Economic Evaluation of Water Management Alternatives: Screening Analysis and Scenario Development, a technical report describing staff work on identifying specific water management measures and the costs (and potential prices) for water developed from these measures. We have included a copy of this report for your reference. The report is organized by geographic region within the state, recognizing that the economic effects of similar water management measures will differ, depending in part on where those measures are implemented.

- 2) Finally, the Implementation Plan includes substantial programmatic capital cost estimates for which little, if any, documentation is offered. What were the assumptions upon which these estimates were based, and how will CALFED address the related need for non-capital funds as an essential element of a comprehensive financing strategy?

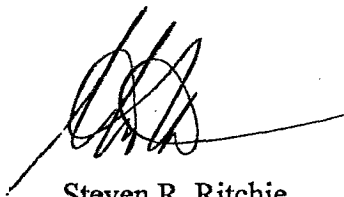
The cost estimates presented in the implementation plan are in current year dollars, and exclude interest, inflation, operations and maintenance, and program management costs. These estimates range in precision from specific project costs for conveyance improvements in the South Delta to broad programmatic level estimates of costs for water use efficiency. Additionally, CALFED's adaptive management approach makes long-term cost estimating inherently difficult. However, the Stage 1 cost estimates do represent the right order of magnitude of investment which will be necessary to carry the program forward successfully.

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The Finance Plan chapter of the June 1999 Implementation Plan indicates that CALFED would recommend that, for irrigation, municipal and industrial, and hydropower, users pay 100% of operations and maintenance costs.

I hope this information provides the clarification you have requested. Please call me at (916) 657-2666 if you have questions on this matter or any other aspect of the CALFED Bay-Delta Program.

Sincerely,

A handwritten signature in black ink, appearing to be "SR Ritchie", with a long horizontal line extending to the right.

Steven R. Ritchie
Acting Executive Director

Enclosure